



COMMONWEALTH OF MASSACHUSETTS

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SENATE PASSES PENSION REFORM LEGISLATION

Boston – The Senate recently passed major reforms to the state pension system, including anti-salary-spiking provisions and the elimination of a controversial early retirement loophole, Senator Michael O. Moore announced. The vote was 24-10. The Senate plan is projected to save the Commonwealth \$5 billion over 30 years. This is the third consecutive year the Senate has passed significant pension reforms.

“This bill makes changes that are needed reduce our unfunded pension liabilities” said Sen. Moore. “The Senate has lived up to its commitment to improve our pension system, further the process of reform, and ensure that our financial house is in order for future generations.”

The bill prevents inappropriate salary spiking in two ways. First, it increases the career “look back” period from 3 years to 5 years to more accurately reflect an employee’s career earnings and provide a more equitable calculation of retirement benefits.

Second, in calculating the average annual rate for retirement compensation, regular earnings in any year cannot include pay that exceeds average earnings from the previous two years by more than 10 percent.

The bill also expands on a reform passed by the legislature two years ago which eliminated the so-called “Section 10” loophole that allowed elected officials to claim a “termination allowance” based on the failure to be nominated or re-elected. The bill eliminates that option entirely for all new employees and states that a retirement benefit cannot be received until the individual has reached the minimum retirement age.

Another major component of the bill is the increase in retirement age for all new employees, reconciling the fact that people are living and working longer than when the retirement ages were set in state law in the 1950s and 1960s.

This change will move the state system closer to the retirement ages already set by the federal government for Social Security benefits. The bill does the following in this area:

- Group 1 (elected officials and most general employees): Increases the retirement age to 60-67 from the current 55-65;
- Group 2 (employees with titles reflecting hazardous duties): Increases the retirement age to 55-62 from the current 55-60;
- Group 4 (firefighters, police officers, some corrections officers): Increases the retirement age to 50-57 from the current 45-55; and
- For state police employees to maximize their benefits, the bill raises the required minimum time of service to 30 years from the current 25 years.

For long-term Group 1 employees and teachers who have worked for at least 30 years, the bill moderates the impact of reforms by easing early retirement penalties and lowering the salary contribution rate by 5 percent.

“The state’s retirement system is an essential benefit for hard-working people who choose public service and play by the rules,” Murray said. “These employees, who have worked for at least 30 years, contribute significantly – sometimes more than 100 percent of their benefit – into the system. The average pension for our state employees is just over \$28,000 a year.”

Additionally, the bill marginally increases the cost-of-living allowance base for retirees from \$12,000 to \$13,000. Current law provides an annual COLA increase up to 3 percent on a base of the first \$12,000 of benefit. The current \$12,000 base became effective in 1998.

The bill also does the following:

- Pro-rates benefits based on entire employment history of employees who have worked in more than one service Group rather than calculating benefits only by the Group from which the employee retires;
- Requires retired employees who are elected to a new office or become a judge and reenter the system to repay received benefits with buyback interest;
- Clarifies that retirement boards must require retirees convicted of a criminal offense to repay all benefits received since the date of the offense, not just the date of conviction;
- Provides an option for retirees who married a person of the same sex, within the first year after it became legal, to change their retirement option in order to provide a benefit to their spouse;
- Requires a one-year cooling-off period before a public retiree can seek the same position previously held; and
- Establishes a special commission to study the Massachusetts public employees' group classification system and make recommendations for changing it.

Under the Senate bill, changes would take effect for new employees beginning January 1, 2012.

The bill now goes to the House of Representatives for further action.